



## Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

## AGRICULTURAL CREDIT IN THE UNITED STATES

The United States, although the leading country of the world in the amount of its agricultural products and in the extent of its banking business, is behind nearly every other progressive country of importance in the development of agricultural credit, *i. e.*, short-time non-mortgage credit. Our manufacturing and commercial businesses are financed largely by means of such credit, and the capital invested in these industries is thereby rendered manifoldly efficient; not so with agriculture. Most farmers apparently make little or no use of short-time credit. There seems to be a wide acceptance in this country even among the farmers themselves of the dictum of Louis XIV, that: "Credit supports agriculture, as the cord supports the hanged." Is this a correct description of the situation? If so, what is the explanation, and what remedies if any are needed? The object of this paper is to throw light upon the answers to these questions.

First, as to existing banking facilities for agricultural credit, and their utilization by farmers. It is well known that the banking capital of the country is concentrated to a great extent in our large cities—to a greater extent than it would be if we had a well-developed system of branch banks like Canada—and that the banks of these cities are prevented by reason of their location from making many agricultural loans, even if they were so inclined. Of the 7,301 national banks in the United States September 1, 1911, 192 or 2.6 per cent were located in the dozen largest cities of the country.<sup>1</sup> The national banks of these twelve cities, representing but 14 per cent of the population of the country, had 37 per cent of the national banking capital (capital, surplus, and undivided profits), 33 per cent of the individual deposits, and 40 per cent of the loans. It should be noted, however, that since the act of 1900, authorizing the establishment of national banks with a capital of less than \$50,000 in small towns, there has been a continual and rapid increase in the number of national banks in small communi-

<sup>1</sup> New York, Chicago, Philadelphia, St. Louis, Boston, Cleveland, Baltimore, Pittsburgh, Detroit, San Francisco, Milwaukee, and Cincinnati. For Buffalo, the tenth city in population, Cincinnati, the thirteenth city, was substituted, since for Buffalo, which is not a reserve city, satisfactory banking figures are not available.

ties. On September 1, 1911, out of the total 7,301 national banks there were 1,966 with a capital of \$25,000, and therefore presumably located in towns of less than 3,000 population, 372 with a capital between \$25,000 and \$50,000, and therefore presumably in towns of less than 6,000 population, and 2,297 with a capital between \$50,000 and \$100,000. Except for banks in towns not exceeding 6,000 population, the law as amended in 1900 does not permit any national bank to be organized with a capital less than \$100,000.

Are the national banks which are accessible to farmers in a position under the law to meet farmers' needs? The answer to this question must be in the affirmative. Aside from the fact that national banks are not permitted to make loans on real estate security, there is no restriction in the national banking act which would interfere with loans to farmers for agricultural purposes. Personal security alone is legally acceptable; the range of possible collateral security is practically unlimited; and there is no limitation fixed by law as to the period of loans. National banks therefore have a very free hand in regard to loans to farmers.

When we inquire concerning agricultural credit in banks under state charters we find conditions varying with the different states, but, with a few minor qualifications, it may be said that the state banking laws are free from restrictions that would hamper state banks and trust companies in extending credit liberally to responsible farmers. They are in a much better position in one respect to deal with farmers than are national banks, that is, in the matter of accepting real estate security. No state denies state banks this privilege, and such restrictions as exist upon its exercise are generally not onerous.<sup>2</sup>

If commercial banks are comparatively unhampered by law in making short-time loans to farmers, it may be asked: To what extent are such loans made? Unfortunately practically no infor-

<sup>2</sup> Restrictions on the amount of real estate loans exist in Michigan, New York, Ohio, Pennsylvania, South Carolina, Texas and Wisconsin; restrictions as to the ratio of the amount of the loan to the value of the real estate exist in Minnesota, Ohio, and Texas. Real estate loans are legally limited to first liens in California, North Dakota, Oklahoma, Pennsylvania, and (under certain qualifications) in New York. Similar restrictions are found in a few states to real estate loans of trust companies. Cf. Samuel A. Welden, "Digest of State Banking Statutes," tables A and C (*Report of National Monetary Commission*; S. Doc. No. 353, 61 Cong., 2 Sess.).

mation is available on this question. In answer to an inquiry the Comptroller of the Currency wrote, under date of May 27 of this year, that no information with reference to short-time loans made to farmers by national banks had ever been compiled by the comptroller's office. The writer has found no trace of any investigation of this subject by state banking departments. For about a year he has taken occasion to inquire at every opportunity of individual bankers concerning their experience with regard to loans to bankers in different parts of the country. The replies received are so divergent that no conclusion can be drawn from them, except that the practice varies widely in different sections of the country and even in different communities in the same section, and that probably the farmers of the North Central and Western States borrow of commercial banks more than do those of the Eastern and Southern States. There is not sufficient evidence, however, for this latter inference to make it much more than a guess. In the absence of any comprehensive data, I shall resort to the unsatisfactory but representative replies from different parts of the country.

Neither of the two national banks in the city of Ithaca, N. Y. makes any appreciable amount of loans to farmers. Both claim to be willing to do so, but say there is practically no demand. In some of the neighboring cities, however, such loans by national banks are more common. The cashier of a national bank in a town of about 800 population in an agricultural section of north-eastern Pennsylvania writes:

Our farmers as a rule are not large borrowers and want loans only in small amounts for short periods.

Farmers in general will not go on each other's paper no matter how good the parties are, for they have been so often taken in by wild-cat schemes that they are shy when their names are required to be placed upon paper. They realize also that they are not familiar with business methods in the commercial world and dare not trust themselves.

There is a moderate amount of borrowing by farmers in western New Jersey. Estimates made by bankers in Princeton as to the proportion of farmers in that neighborhood who borrow for short periods of local banks vary from 15 to 40 per cent.

A former president of a national bank in Indianapolis writes:

We came very little in contact with farmers. We made special effort to secure such business by sending to a considerable mailing list of carefully selected farmers circulars and personal letters . . .

but the business did not come. My inference was that they dealt with the nearby small banks.

Of the situation in Lafayette, Indiana, a former vice-president of a national bank, writes:

About 50 per cent of our business was with farmers. They borrow frequently from commercial banks, funds to be used for crop planting, crop gathering, purchase of agricultural machinery, improvements on the farm, purchase of cattle, and the carrying of cattle or hogs to maturity. Through Indiana these farmers' loans are very usual in the country banks, many preferring state charters so they may make these loans not only on personal but also on mortgage security.

Farmers are seldom able to give any but personal or mortgage security. A large percentage of them are sufficiently responsible to be entitled to and to receive reasonable credit without security.

Farmers seem to endorse for each other much more readily than do those of other classes. . . . The reason is, I think, clear. Each knows pretty much everything about his neighbor's financial status, the amount and value of his land, his live-stock, and other visible personal property, the amount of any mortgage and when due. So much being thus in the open there is less of the secretive habit, so that the extent of the invisible personal property and debts is apt to be known.

A similar report comes from a national bank in Lincoln, Nebraska, from which the following extracts are taken:

The farmers of this state have need of accommodations of this kind to carry them through the crop season. As a matter of fact, they use short-time credit to fully as great an extent as do the business men in the city and smaller towns. In fact, I think it is true that in the smaller towns the bankers favor the farmers in preference to the small business men. . . .

There is no doubt about the average well-to-do farmer in this state being able to furnish satisfactory security aside from mortgaging his farm for such temporary loans within any reasonable limitations. In some cases the banks take chattel mortgages on cattle or other live-stock, and in some cases where the farmer has a good equity in his farm they will not hesitate to take his personal note.

While I do not know that there is any particular difference between farmers and other classes in this state as to their willingness to go security for each other, yet very little of this is done any more. There was a time when it was not an uncommon thing, but it has become less and less until now there is very little signing done for others. In fact, the farmers feel that they are able to take care of themselves and do not ask others to sign with them, and are able to handle themselves without such an endorsement. This is true of all classes in this state.

I have never felt that in this locality farmers suffered in any way from lack of credit facilities. . . .

A former bank examiner in the state of California, himself a farmer, writes:

The farmers of California do not to any considerable extent make a practice of borrowing money from local banks or money lenders for short periods. . . .

In reviewing the various bank examiner's reports on some 500 state banks I recall very few instances of crop mortgages, and it impresses me that in many of the cases the mortgage was taken to obtain additional security for loans previously granted and secured otherwise.

I think it would be safe to say that the bankers as a rule have not favored short-time unsecured loans to farmers. They are, however, fast awakening to the fact that as a rule these are the safest loans a bank can make, and are making an effort to get in closer touch with the farmer. It would also be safe to say that the average small farmer does not as yet realize that he *can* obtain such credit at a bank.

Our farmers as a class are exceedingly reluctant "to go each other's security." Two-name paper is mostly confined to commercial transactions.

A college professor in the state of Washington informs me that short-time loans to farmers are common in that state, but that frequently the rate of interest charged is two per cent higher than that on commercial loans—the explanation commonly given being that a farmer borrowing generally reduces the resulting deposit credit more rapidly than does a merchant.

In the Southern States, particularly in the cotton, rice, and tobacco sections, the use of crop liens for short-time loans appears to be much greater than in other sections of the country.<sup>3</sup> Such meager testimony as I have been able to secure seems to show that the amount of short-time agricultural credit extended by banks in the South is relatively small but rather rapidly increasing. The banks are catering more and more to this class of business.

Other evidence might be cited, but the above gives a fair picture of the situation as revealed by all the testimony received—a confused picture of widely varying conditions. Public opinion is now being aroused on the subject of agricultural credit, and pressure is liable to be brought for hasty and perhaps radical legislation. Obviously, the first step to be taken in the interest of a sane solution of the problem is to find out exactly what the problem is. To this end the writer would urge strongly the need of investigations by the Comptroller of the Currency and by the various state banking departments of the present facilities and practices in the matter of agricultural loans. In view of the increasing public

<sup>3</sup> Cf. Testimony before United States Industrial Commission (*Report*, X), under subjects of "Credit System" and "Crop Lien System," *passim*.

interest in the subject the investigations cannot be undertaken too soon.

Although the farmers in any section of the country may not resort to the banks for short-time credit it does not follow that they are not receiving such credit. As a matter of fact they are often receiving it on a considerable scale and in the most expensive way, *i. e.*, in the form of book credits with merchants. It is a common practice throughout the country for farmers to run up book accounts with local merchants during the spring and summer to be paid in the fall when the crops are sold. When this is done on any considerable scale the farmer probably pays more than bank interest under the guise of prices; and this is particularly true when he obligates himself to sell his crops to the creditor merchant. In the South this practice is carried to the extreme in the familiar "store-lien" system which holds many farmers in the cotton belt in a condition bordering on perpetual servitude. The custom is for the farmer to buy supplies of the local general store on credit for the year, agreeing to sell to the merchant his cotton crop in the fall, thereby cancelling the debt. A crop lien is generally given, and the merchant often dictates the character and the amount of the planting. The prices paid for cotton under this system are liable to be exceptionally low, and the prices paid by the farmer for his supplies exceptionally high. The system has proven a curse to many sections of the South. Witnesses before the United States Industrial Commission estimated the interest rates imposed by this system at from 20 per cent upwards. Mr. George K. Holmes of the United States Department of Agriculture testified:

The rate of interest on the liens on the cotton crop of the South, it is safe to say, probably averages 40 per cent a year. All cotton men will agree that it is at least that. The store system of the South is a sort of peonage; that is what it amounts to with the cotton planter.<sup>4</sup>

Since the Industrial Commission's report was published the banking facilities of the South have been greatly increased, and the banks are coming into closer touch with farmers, with the result that the store-lien system is gradually breaking down.

Another form of credit to farmers is that obtained from dealers in farm implements and machinery which the farmers frequently buy on time, paying interest during the credit period.

One informant, who has been a bank examiner, writes from

<sup>4</sup> *Report*, X, p. 161.

California—and his testimony is applicable to many other sections of the country:

The new generation of merchants are not disposed to carry the farmer as of old and insist that overdue accounts be covered by promissory notes which are in turn hypothecated with their bank. In other words a clearer demarcation of function is being gradually brought about to the best interests of all concerned.

Such in general is the present situation in the United States in the matter of short-time agricultural credit as evidenced by the very indefinite and scant information available. What are the causes? Perhaps in them will appear some suggestions for the remedy.

The chief reasons for the backwardness of the United States as compared with Europe with regard to agricultural credit may be briefly summarized as follows: (1) Our wonderful agricultural domain where good land could be had almost for the asking, and where for generations land was so cheap and labor and capital so dear that intensive cultivation was generally unprofitable. (2) The prosperity of our farmers who have not been forced by dire necessity to resort to credit as were the farmers of Germany at the middle of the last century when the Raiffeisen coöperative banks were first organized. (3) The nomadic character of a considerable part of our agricultural population as it has moved continually westward in taking up of new lands, and more recently as it has been retracing its steps or moving northward. (4) The isolation of our farmers in this country of large farms and “magnificent distances.” (5) The rapid growth of the manufacturing and commercial business of the country—and that largely in the hands of the same class of people who control the bulk of the banking business.<sup>5</sup>

Add to these circumstances the obstacles which farmers always encounter in the matter of credit, as compared with manufacturers and merchants, obstacles such as the uncertainty of crops and the strongly seasonal character of the farmer's credit demands, and we have a sufficient explanation for the backwardness of agricultural credit in this country.

To emphasize most of these causes, however, is to brand oneself as belonging to a past generation. Our domain of free arable land

<sup>5</sup> In some states farmers themselves own considerable amounts of bank capital. This is said to be particularly true of Iowa.



is practically gone; good farms must be bought, and for them ever increasing prices must be paid.<sup>6</sup>

The era of hand cultivation is giving way to that of farm machinery propelled by horse-power and even by steam, gasoline, or electricity, with its resulting great increase in the efficiency of labor. Eleven years ago the editor of *The Dakota Farmer*, in his testimony before the United States Industrial Commission, put the matter tersely, and with little exaggeration, as affecting his own section of the country, at least, when he said: "When I first worked out it took five binders to follow a machine, one man to rake off, and one to carry the bundles together. Now the hired girl frequently drives a machine that does the whole business."<sup>7</sup> Some idea of the extent of this increase may be obtained by reference to the following figures compiled from census reports:

VALUE OF FARM IMPLEMENTS AND MACHINERY IN THE U. S.<sup>8</sup>

YEAR	VALUE	PER CENT
	000,000	INCREASE
1910	\$1,265	69
1900	750	52
1890	494	22
1880	407	50
1870 <sup>9</sup>	271	10
1860	246	62

The increase in the value of farm implements and machinery per acre of land in farms from 1900 to 1910 was from \$0.89 to \$1.44, or 61.8 per cent.

An analysis of the figures for farm machinery by geographic divisions shows a marked difference in the rates of increase, but the tendency in all sections during the last forty years has been decidedly upwards, the greatest growth having been witnessed in the decade ending 1910. During that decade the lowest rate of increase in any section was that of New England, 39 per cent, and the highest that of the Mountain States, 163 per cent.<sup>10</sup>

Another development which is making larger demands upon the farmer for working capital is the increasing use of artificial fer-

<sup>6</sup>The average value per acre of farm land in the United States rose from \$15.57 in 1900 to \$32.40 in 1910, a rise of 108 per cent. *Thirteenth Census, Bulletin on Farms and Farm Property*, p. 15.

<sup>7</sup>Report, X, p. 938.

<sup>8</sup>Exclusive of Alaska and Hawaii.

<sup>9</sup>Values in gold.

<sup>10</sup>Cf. *Twelfth Census*, V, pp. xxix and xxx, and *Thirteenth Census, Bulletin on Farm and Farm Property by States*, pp. 13 and 15.

tilizers, the expenditure for which in the United States approximately doubled from 1880 to 1900.<sup>11</sup>

As the result of such tendencies and of the rapid depletion of our free domain, farming in the United States is losing its old time kinship to mining and becoming more like manufacturing.<sup>12</sup> More and better machinery and more power are needed on most farms in the interest of efficiency. This calls for short-time credit. But a supply of good machinery requires a fair sized farm for its efficient utilization—hence the need for larger farms and for mortgage credit to make their purchase possible. Upon this subject there are some very illuminating data in Warren and Livermore's *Agricultural Survey* of four townships in Tompkins County, N. Y., from which the following is quoted:<sup>13</sup>

The value of farm machinery increases rapidly with the size of the farm. . . . Anyone who has ever made a list of the necessary farm machinery will see at once how inadequately these small farms are equipped. Yet their machinery costs nearly twice as much per acre as that on the larger farms that have nearly three times as much machinery. Machinery can be used more effectively on large farms. One mower, one hay rake, one tedder, one hay loader, one corn harvester, one grain harvester, one grain drill, one manure spreader, one potato digger, one potato planter, can do their work on a 250 acre farm as readily as on a small farm. Few of the small farms have half of these tools. If a small farm does have nearly all the list, it cannot use them enough to pay for the investment. The more efficient and numerous machines become, the larger our farms should be. It is interesting to notice how many of the tools are of very recent development. Almost half of the value of farm machinery on a well-equipped farm is invested in machinery that has been perfected in the last few years.

Much the same situation exists in regard to an adequate equipment of horses.

<sup>11</sup> *Twelfth Census*, X, p. cxi.

<sup>12</sup> "The farmer was once regarded as a miner whose prosperity depended upon the amount of fertility he could dig out of the soil each year in the form of crops. When the soil was no longer fertile the mine was exhausted, and the farmer had to begin again on new land. . . . The farmer has turned gradually from the mining process to the manufacturing. Land and machinery are his factory and capital; fertility, natural and artificial, his source of power; and crops and animal products his manufactured goods." *Twelfth Census*, V, p. cxxxvi.

<sup>13</sup> *An Agricultural Survey. Townships of Ithaca, Dryden, Danby, and Lansing, Tompkins County, New York*, by G. F. Warren and K. E. Livermore, pp. 419-421. (Ithaca, N. Y.: Cornell University, 1911.)

Three or four horses are the smallest number that can be used efficiently with modern machinery. . . . The small farms have not enough horses to make efficient teams and yet they are over-supplied with horses compared with their area. On these farms there are only 15 acres per horse. On the largest farms, one horse farms three times this area, with no resulting decrease in crop yields. . . . When we consider the cost of keeping a horse we see what a great advantage the larger farms have.

Forces like these are counteracting what is commonly thought of as the normal tendency of agriculture to move toward more intensive cultivation on *small farms*, with the result that the average amount of improved farm land per farm actually increased instead of diminishing in the United States during the last decade.<sup>14</sup> This does not mean less intensive cultivation, in fact quite the contrary; it means more intensive cultivation, but by the efficient utilization of good machinery and of power. It means further, as said above, a demand for mortgage credit for the purpose of enlarging farms—and that, at rapidly increasing farm prices.<sup>15</sup>

The farming population is becoming more settled now that the free lands are practically gone and the frontier has disappeared.<sup>16</sup> The isolation of the farmer is rapidly becoming a thing of the past, with the advent of rural free delivery,<sup>17</sup> rural telephone,<sup>18</sup> the automobile, and the parcels post. The farmer no longer buys gold-bricks nor is duped by fraudulent lightning-rod schemes except in the pages of the comic supplements.

When seeking credit the farmer can offer better security than ever before. His markets are larger, better organized, more

<sup>14</sup> It rose from 72.2 acres per farm to 75.2; although in some geographic sections it fell. *Thirteenth Census, Bulletin on Farms and Farm Property*, p. 19.

<sup>15</sup> *Supra*, p. 859, note 6.

<sup>16</sup> Every census since 1870 has shown a larger percentage of the native population living in state or territory of birth.

<sup>17</sup> The rural free delivery routes have increased from 82 in 1897 to 41,656 in 1911. Rural delivery carriers collected or delivered in 1911 over 300 million tons of mail, representing approximately two and three quarters billion pieces. *Report of the Fourth Assistant Postmaster General, 1911*, pp. 4 and 5.

<sup>18</sup> Reliable figures are not available as to the actual number of farm telephones in operation in the United States, but they are available for Connecticut and Iowa. "... 73 per cent of the farms in Iowa were supplied with telephone service, the statistics including a certain amount of duplication of service, while in Connecticut 58 per cent of the farms were supplied with telephones without competition." *Special Report of Bureau of Census, Telephones, 1907*, p. 79.

certain, and more accessible. The risk of crop failure is less, thanks to the wonderful progress of scientific agriculture. There are few pests which cannot now be readily controlled by the intelligent farmer, who takes time by the forelock. The problem of moisture is growing less serious every year with the improvements in irrigation, dry farming, and the more scientific diversification of crops.

Conditions then point to an increasing need for agricultural credit, and to improving circumstances for its safe development.

It is out of soil such as this that the present agitation for improved agricultural credit facilities has suddenly grown. An investigation of mortgage and agricultural credit in Europe is now being made by the State Department and a comprehensive report on the subject is expected before long. The American Bankers' Association has had a committee to investigate the subject during the past year and at their annual convention in September they devoted a meeting to its discussion. The New York State Bankers' Association has actively taken up the subject, and the President of the Illinois Bankers' Association recently gave to the press a notice containing the statement that "24 State Bankers' Associations have recently in response to our work [*i. e.*, that of the American Bankers' Association] organized standing committees on agriculture to coöperate with our farmers, on whose success ours depends." Much interest has been aroused through the publications of the International Institute of Agriculture, and through the influence of its founder and leading American representative, Mr. David Lubin of California. At the meeting of the Southern Commercial Congress at Louisville in April, Mr. Lubin spoke, and so much interest was aroused that a resolution was passed recommending that "a select committee on rural finance investigation, consisting of one or more, but preferably two, members from each state in the Union, go to Europe in the summer of 1912 [the date was later changed to May, 1913, when the General Assembly of the International Institute of Agriculture meets at Rome], under the general management of the Southern Commercial Congress . . ."<sup>19</sup> Delegates have already been appointed by a number of states. A resolution

<sup>19</sup> *Report to the International Institute of Agriculture on the Conference Held at Nashville, Tenn., April, 1912*, p. 3. This report has been reprinted as S. Doc., No. 855, 62 Cong., 2 Sess.

introduced by Senator Gronna of North Dakota, calling for the appointment of a federal commission to investigate the coöperative banks of Europe, was passed in the United States Senate May 7, 1912,<sup>20</sup> but failed to pass the House. The national platforms of the three leading parties contain planks favoring the improvement of credit facilities for farmers, and the farmers themselves are taking an active interest in the subject in their various organizations. All this to show that the ball is moving, and growing as it moves.

If the time is ripe for a greater use of bank credit in agriculture, how is that credit to be obtained? Broadly speaking four methods may be mentioned, only the last two of which are deserving of much attention at the present time. They are: (1) Establish government agricultural banks; (2) Adopt the Egyptian plan of a government guaranty to an agricultural bank established with private capital; (3) Encourage the farmers to organize coöperative credit societies on some such plan as the Raiffeisen or Schulze-Delitzsch banks of Germany; (4) Utilize more effectively in the interest of the farmer our present banking machinery, and improve it where it is defective.

The suggestion of an agricultural bank owned and operated by government, either state or federal, is not worthy of serious consideration in this country at the present time. The history of such banks both in Europe and America has generally been a disastrous one, although a few have succeeded. Some exist today which are performing useful services to farmers, notably in the line of mortgage credit, among which may be mentioned those of the Australian States and New Zealand,<sup>21</sup> and the recently established one in the Philippine Islands. The success of such institutions is not such as to justify any attempt to establish them in the United States, at least until every reasonable effort has been made to solve the problem by means of private and coöperative effort.

The other plan, commonly known as the Egyptian plan<sup>22</sup> from

<sup>20</sup> *Congressional Record*, p. 6319.

<sup>21</sup> On this subject see the writer's article on "Agricultural Credit" in L. H. Bailey's *Cyclopedia of American Agriculture*, IV, p. 270; and his *Report to the Treasurer of the Philippine Islands on The Advisability of Establishing a Government Agricultural Bank in the Philippine Islands*, pp. 9-11, 151-154.

<sup>22</sup> Cf. E. W. Kemmerer, *Report to the Secretary of War and to the Philippine Commission, on The Agricultural Bank of Egypt*. (Manila, P. I.: 1906. Also published by Bureau of Insular Affairs, Washington, D. C.)

its most important example, seeks to eliminate the evils of a purely government bank and to take advantage of its meritorious features. In Egypt the agricultural bank is owned and financed by private capital; it enjoys, however, a government guaranty of principal and of three per cent interest. Its administrative expenses are kept low by an arrangement with the Egyptian government by which the government tax collectors make collection of instalments on the Bank's loans at the time of the collection of the regular land tax, for which the Bank pays them a small commission. The Agricultural Bank of Egypt has had a phenomenal success, rendering an invaluable service to the Egyptian fellaheen, and at the same time yielding good profits to its owners. It was this type of bank that the United States government authorized established in the Philippines by the act of March 4, 1907, but the interest guaranty of four per cent has so far proved too low to attract capital into the enterprise.<sup>23</sup>

A bank organized on the Egyptian plan is well adapted to do pioneer work among ignorant farmers, where the apparent risks and heavy administrative expenses prevent private capital from entering the field. A government guaranty, however, hardly seems necessary in the United States, and our people would probably look askance at any proposal for a great agricultural bank or banks of this type with branches scattered throughout the country. It is contrary to our banking traditions, and, like the plan for a strictly government bank, should not be thought of until plans for meeting the need by private initiative have been fairly tried and found wanting.

When one considers the question of the improvement of agricultural credit in the United States one instinctively thinks of the coöperative credit banks of the old world, because of their phenomenal success for a half century and more, the simplicity of their structures, the ease with which they may be established, and their ready adaptability to the widely varying conditions found in a great country like the United States. The description of the wonderful success of these institutions as told by Henry W. Wolff in his *People's Banks* reads like a fairy story. Although the success of coöperative banks has been great in nearly every country of Continental Europe nowhere else has it been so great

<sup>23</sup> Cf. E. W. Kemmerer, "An Agricultural Bank for the Philippines," *Yale Review*, November, 1907, pp. 262-279.

as in Germany, the country of their origin, and it is to Germany one naturally turns first for suggestions. There we find four types of coöperative credit banks, *Landschaften*, *Ritterschaften*, *Schulze-Delitzsch* banks and *Raiffeisen* banks. The first two are coöperative associations loaning money on land mortgages,<sup>24</sup> and securing funds largely through the issue of bonds against the collective mortgages. Being concerned with long-time mortgage credit they do not fall within the province of this paper. The other two types of banks deal especially with short-time credit, the one chiefly in the towns and cities, and the other with farmers in the rural communities. It is with the latter that we are most concerned. Let us therefore consider briefly the essential features of the *Raiffeisen* system.

These features are: (1) Organization on the strictly coöperative principle, none but members having the right to borrow, although non-members may make deposits. (2) Limitation of loan operations to a very small area in which all farmers are acquainted with each other. A bank's field of business, the founder believed, should not cover a parish of less than 400 people nor of more than 1500. The banks were to be, therefore, purely neighborhood affairs. There is a sympathetic but well-informed neighborhood opinion which prevents the squandering of loans. (3) Unlimited liability of all members for the debts of the bank, a necessary corollary of which is the provision that membership is obtained only by election by those already members. (4) The working capital of the bank is obtained chiefly from the following sources: (a) Small savings "drawn, either from within the area covered by the bank, in which case it comes both from members and non-members, the former being rewarded where possible at slightly higher rates in order to encourage membership; or from without the area, in which case it of necessity comes from non-members."<sup>25</sup> (b) Loans from the provincial bank of the district, or more importantly from the central bank of the Empire at which the local bank keeps a current account and with which it may rediscount its paper. Funds are also sometimes obtained from other banks or from

<sup>24</sup> The principal provisions of the statutes of the leading mortgage banks of the world are given in the appendices of the writer's *Report on the Advisability of Establishing a Government Agricultural Bank in the Philippines*, *Op. cit.*

<sup>25</sup> C. R. Fay, *Coöperation at Home and Abroad*, p. 44. (New York: Macmillan. 1908.)

private individuals. (c) A purely nominal share capital which the banks did not originally have, and which they have been forced against their will to issue. The requirement is now usually met by the issue of a few low-priced shares of which no member can hold more than one and upon which no dividend is paid. (d) Two surplus funds called reserve funds; one used exclusively to cover losses, and the other being the principal reserve fund (*Stiftungsfund*), commonly used for "positive improvements, such as the extension of the premises or the establishment of a burial fund."<sup>26</sup> In this fund must be placed two thirds of the annual profits. The fund cannot be distributed among the members, even though the bank be dissolved. In such a case it is held in trust for a time for a new bank, should one be established, and if no such bank is established it must be used for some work of public utility. A recent publication of the International Institute of Agriculture<sup>27</sup> analyzes the total working capital of the rural banks of Germany for the year 1909 as follows:

	AMOUNT IN MARKS 000,000	PERCENTAGE
Share capital .....	22.4	1.2
Reserves .....	51.0	2.6
Deposits on current account .....	189.1	9.8
Savings deposits .....	1,455.6	75.2
Other liabilities <sup>28</sup> .....	217.5	11.2
Total working capital .....	1,935.5	100.0

The striking fact brought out by these figures is that out of nearly two billion marks placed at the disposal of farmers, less than<sup>29</sup> 11.2 per cent was furnished by outsiders, while more than 88.8 per cent was provided by the savings and other deposits of the farmers themselves and of the local public. (5) A fifth feature of the Raiffeisen system is that the bank's administrative organization is simple and democratic. Final authority on local questions resides in the general meeting in which every member has one vote. There is elected annually a committee of management consisting usually of five or six directors who meet weekly. As a

<sup>26</sup> Fay, *Coöperation*, etc., p. 44.

<sup>27</sup> *An Outline of the European Coöperative Credit Systems*, pp. 12 and 13.

<sup>28</sup> Under "other liabilities" are included in addition to other items the funds which the banks have borrowed from banks and individual capitalists.

<sup>29</sup> The capital of the district banks and of the central bank came largely from the local banks.



check upon this executive committee there is also elected annually a council of supervision consisting of from six to nine members. A biennial audit is made of the accounts of each bank by an accountant employed by the district or central union. The books of the bank, except the individual deposit ledger, are open to the inspection of all members. Officers of the local banks serve without compensation, except the treasurer who has no vote in the making of loans.<sup>30</sup> The typical Raiffeisen bank is described by Fay<sup>31</sup> as "a small single room, probably at the back of a farm building, opened twice a week and presided over by a single occupant," the treasurer. (6) Advances take two forms: the ordinary loan (of which the name is sufficiently descriptive), and the current account which is similar to the Scotch cash credit. The latter constitute about a third<sup>32</sup> of the total and show a tendency to increase in proportion to the ordinary loans. The period of the ordinary loan varies from six months to three years; and in exceptional cases it may be even longer.<sup>33</sup> Loans are repayable in instalments covering interest and part of the principal, or in lump sums. Banks reserve the right to call a loan on four weeks' notice. The average credit advanced per member is 500 marks, and the average interest rate probably somewhere between four and five per cent. Although mortgage and other collateral security is sometimes accepted, the banks' chief reliance is personal security, and the great bulk of the loans are made on two-name paper.

The Raiffeisen banks are organized into provincial federations with provincial banks at their head, and these in turn into a national federation with a central bank at its head. These provincial banks and the central bank "equalize the need of credit of the individual banks, supplying them with money when required and employing their surplus funds."<sup>34</sup> A large proportion of the German coöperative banks and other coöperative agricultural societies are federated in a single national organization, the National Federation of Darmstadt.<sup>35</sup>

<sup>30</sup> "In 1909 the expenses of management amounted, on the average, to the modest sum of 638 marks per bank." The International Institute of Agriculture, *An Outline* etc., p. 11.

<sup>31</sup> Fay, p. 47.

<sup>32</sup> In 1909 the figures for Germany were: Loans on current account, M 425,995,403 and Loans for fixed periods, M 1,082,446,388. The International Institute of Agriculture, *An Outline*, etc., p. 14.

<sup>33</sup> *Idem*.

<sup>34</sup> *Ibid.*, p. 17.

<sup>35</sup> *Idem*.

Such are the leading features of the greatest agricultural credit system of the world. To the American the surprising thing about it all is that such coöperative credit banks are practically unknown in the United States, although there has been a remarkable development here in recent years of other forms of coöperation among farmers.<sup>36</sup> This surprise is the greater when one bears in mind that "whole counties have been populated in the Northwest by European agriculturists who came from neighborhoods where they were familiar with agricultural coöperative credit, and yet not a society of coöperative credit for these immigrants has been established from the beginning to the present time."<sup>37</sup>

A real beginning in the direction of coöperative agricultural credit was made last year through the influence of the Jewish Agricultural and Industrial Aid Society (174 Second Ave., New York City). Eight "credit unions" have so far been organized by this society, three in 1911 and five in 1912. Each union raised through the sale of shares (\$5.00 per share) to members \$500, and the Aid Society loaned it \$1000 more at 2 per cent interest. Loans are only granted to members for "productive purposes or urgent need." No loan may exceed \$100 nor can it be granted for a period extending over six months. Renewals may be made, but only after a partial payment of the original loan. Loans are made only upon two-name paper but the second name may be that of a non-member. Additional security may be demanded. Although the history of these credit unions has been brief their success has been pronounced. Up to June 30 of this year the average age of these unions was but seven months, yet their reports of that date showed a total membership of 240, shares outstanding amounting to \$4,180, and they had already granted loans aggregating \$17,755.<sup>38</sup>

<sup>36</sup> "Farmers' economic coöperation in the United States has developed enormously during the period under review [1896-1908], and it is safe to say that at the present time more than half of the 6,100,000 farms are represented in economic coöperation; the fraction is much larger if it is based on the total number of medium and better sorts of farmers to which the coöperators mostly belong." The most prominent objects are: Insurance, creameries, cheese factories, coöperative selling organizations of numerous kinds, coöperative buying organizations, coöperative warehouses, coöperative telephones, coöperative irrigation, etc. *Annual Report of the Secretary of Agriculture 1908*, pp. 183, 184.

<sup>37</sup> Quoted from a letter from Mr. George K. Holmes, Statistician of the Department of Agriculture, Washington, D. C.

<sup>38</sup> For information concerning the work of these coöperative credit unions

As previously mentioned,<sup>39</sup> the State Department at Washington, through our American embassies abroad and at the instigation of President Taft, is making an investigation of coöperative credit in Europe. The results are soon to be published and are to be used by the President as a basis of recommendations for some action in this country. Until that report is published it would be premature to make many suggestions concerning the adaptation of the Raiffeisen system, the Schulze-Delitzsch system, or any other system of coöperative agricultural credit to the needs of the United States. What is needed now—and possibly about all that will be needed in the future—is a campaign of education among the farmers themselves rather than one of legislation; although the development of such societies will doubtless be furthered in many states by legislation, such as was recently enacted in Massachusetts (ch. 419, Acts of 1909), freeing them from some of the hampering provisions of the general banking act of the state.<sup>40</sup> Conditions are so widely different in different sections of the country, and among different classes in the same section, that coöperative agricultural credit societies will need to be given a fairly free hand in such matters as limited or unlimited liability, the amount of share capital, receipt of deposits, etc., so that they may adapt themselves to local needs. A reasonable amount of government supervision

the writer is indebted to Mr. Leonard G. Robinson, the General Manager of the Jewish Agricultural and Industrial Aid Society, and the man largely responsible for the founding of these pioneer coöperative agricultural credit societies upon American soil. One of the best accounts of agricultural credit conditions in the United States the writer has seen is an unpublished address on "Scientific Farming and Scientific Financing," by Mr. Robinson, delivered at Cornell University last year. Cf. *Annual Report* of the society for 1911, and *Articles of Association and By-Laws of the Jewish Farmers' Coöperative Credit Unions*.

<sup>39</sup> *Supra*, p. 862. <sup>40</sup> With reference to this subject Mr. Robinson writes: "We encountered considerable difficulty in our organization of these associations because of the lack of legislation on the subject. We were, accordingly, obliged to organize our credit unions as voluntary or unincorporated associations. . . . The only state having any legislation on the subject is Massachusetts. I consider the Massachusetts coöperative credit union law admirable and have no doubt that sooner or later other states will follow in its footsteps. It would seem incredible, however, that, although the Massachusetts law has been on the statute books since 1909, not a single agricultural credit union has been organized."

Up to March 14, 1912, 22 coöperative credit unions had been organized in Massachusetts under the act of 1909, but none of them were among farmers.

on the part of the banking departments of the states seems desirable.

Passing now to the question of the better utilization of our existing banking machinery, we may consider it first from the standpoint of the government, then from that of the banks, and finally from that of the farmers themselves.

The provisions of the national banking act (*Revised Statutes*, sec. 5137) are too rigid in the matter of loans on real estate security. National banks are, of course, intended to be banks for business men, and their assets should be quick assets in so far as their liabilities are quick liabilities. But it should not be overlooked that the modern farmer is a business man, that he needs active credit for the efficient conduct of his current business, and that land is the only kind of collateral many farmers can give that is acceptable to bankers. Many worthy farmers are not willing and some are not able to secure satisfactory endorsers to their paper. Crop liens, except in the South, are not usually very acceptable to banks. The ability of the farmer to give mortgage security to national banks in case of need would often prove a great help. Furthermore, now that a majority of our national banks have savings departments,<sup>41</sup> and that savings deposits might wisely be made withdrawable subject to advance notice, it is not unreasonable that these banks should be permitted to invest at least a substantial part of their savings funds in the same kinds of mortgage securities that are open to the investment of funds of savings banks; provided, of course, that due care be taken to prevent the juggling of accounts between the commercial department and the savings department of the bank.<sup>42</sup>

Another form of desirable legislation in the interest of the farmer consists in the abandonment of our unscientific bond secured bank-note circulation for a scientific system, and in the rendering

<sup>41</sup> Figures compiled by the National Monetary Commission for the year 1909, show that of the 6585 national banks then in the United States (excluding island possessions and Alaska) 3511 reported savings accounts, with a total of nearly two million savings depositors, and savings deposits amounting to approximately \$760,000,000. S. Doc. No. 225, 61 Cong., 2 Sess., pp. 36-39.

<sup>42</sup> The proposal of the National Monetary Commission is certainly conservative enough on this point. It seeks to authorize national banks under proper regulations "to establish savings departments, and to lend . . . not more than 40 per cent of their savings deposits upon productive real estate, such loans not to exceed 50 per cent of the actual value of the property." *Final Report*, sec. 50.

of our deposit currency more elastic. The more the farmer resorts to bank credit as a means of financing his current business the more will he suffer from the seasonal inelasticity of our bank-note and deposit currency. Farming business is preëminently seasonal in character; the farmers over the greater part of the country need funds most at about the same times of the year, *i. e.*, the fall and spring. A great increase in the demand for currency and capital, say in the fall, under an inelastic currency and credit system like our own, means to the farmer, highest interest rates at just the time when he needs most to borrow, greatest scarcity of cash at just the time when his need for cash is the most urgent, and prices depressed by a tight money market at the time of the year when he has most to sell.<sup>43</sup> It is doubtful if any class of people in the country would benefit more from a thoroughgoing reform of our banking system than would the farmers.

The apportionment of responsibility between farmer and banker for their not having gotten together better is an impossible task. Although some exceptions must be made, particularly in the Middle West, as a general proposition neither has appreciated the opportunity which the other offered.

The banker must be brought to realize that one of the best kinds of paper in the world is short-time business paper bearing the names of two responsible farmers. He should be an adviser and friend to the farmer as much as to the city customer. He should make the farmer feel that a productive loan to him is not of the nature of a favor reluctantly granted—as so many farmers complain—but rather a business proposition profitable to both, as gladly given as it is received. He should further coöperate with the local business men in preparing financial ratings of farmers, to fill the gap left by the inability, to be hoped temporary, of mercantile credit agencies to rate farmers as extensively as they do other business men of like capital.<sup>44</sup>

<sup>43</sup> Cf. E. W. Kemmerer, "Seasonal Variations in the Relative Demand for Money and Capital in the United States," pp. 224, 228-231. (*Report of National Monetary Commission*; S. Doc. No. 588, 61 Cong., 2 Sess.)

<sup>44</sup> I am indebted to R. G. Dun and Co., for the following reply to an inquiry on this subject. "It is not practicable to 'rate' farmers exactly as we do traders in merchandise, seeking credit in the wholesale markets. From these traders detailed statements of assets and liabilities are obtained and coupled with the results of our outside investigations.

"We could and do, however, make reports on the financial condition and

The farmer, on the other hand, must be educated by the banker, the press, and the agricultural school and college, to the advantages of credit as a means to the more efficient working of his farm. This should be done with caution for credit is a two-edged sword. The farmer should be encouraged to borrow only when it is very clear that he can use additional capital so productively that it will pay. But what industrious farmer could not use profitably some additional capital every year, could he obtain it at as reasonable rates as does the merchant? The farmer must learn to keep careful accounts. He must be made to realize that the banks are open to him as to other business men, and that the bulk of the country's short-time commercial loans, as likewise of the agricultural loans of Europe, are made on the very same security he is capable of giving, *i. e.*, two-name paper of honest, industrious business men.

E. W. KEMMERER.

*Princeton University.*

general standing of farmers, particularly those whom you refer to as 'well-to-do.' Reports of this character are somewhat more expensive than those on traders, for the reason that we rarely have more than one application for a report on a farmer, whereas inquiries for mercantile reports may average several per name."